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FISCAL IMPACT STATEMENT

LS 6645 | **NOTE PREPARED:** Mar 19, 2013
BILL NUMBER: SB 499 | **BILL AMENDED:** Jan 31, 2013

SUBJECT: PERF and Prosecutor Pensions.

FIRST AUTHOR: Sen. Head | **BILL STATUS:** As Passed House
FIRST SPONSOR: Rep. Gutwein

FUNDS AFFECTED: X GENERAL | **IMPACT:** State
X DEDICATED
FEDERAL

Summary of Legislation: *Exemption from Participation in PERF DC Plan and Retirement Medical Benefits Account* - The bill exempts from participation in the Public Employees' Defined Contribution Plan (PERF DC Plan) and the Retirement Medical Benefits Account within the Public Employees' Retirement Fund (PERF) employees of the state who are employed by: (1) a body corporate and politic of the state created by state statute; or (2) a state educational institution. This provision holds true unless the chief executive officer of the body or institution elects to participate in the plan or the account by submitting a written notice of the election to the director of the Indiana Public Retirement System (INPRS).

PARF Reinstatement Provision - The bill also provides that the board of trustees of INPRS shall grant service credit to a participant who withdrew from the Prosecuting Attorneys Retirement Fund (PARF) for years of service accrued before the withdrawal if the participant pays into the fund the full amount of the money received when the participant withdrew, plus interest at a rate specified by rule by INPRS.

The bill establishes the amount of the PERF pension offset for a participant (and the surviving spouse and dependent child of a participant) in PARF who is also a member of PERF.

Effective Date: Upon passage; July 1, 2013.

Explanation of State Expenditures: *PARF Reinstatement Provision* - The total cost resulting from this provision (effective as of July 1, 2013) depends on the number of PARF members who withdraw and later return to active employment in a covered position and are willing to pay to reinstate their prior service. To date, one PARF member has withdrawn from PARF and later returned to active employment in a covered position.

According to INPRS, PARF has 229 members, not including benefit recipients, who would be eligible to take advantage of this provision. As the cost is dependent upon the number of members who utilize it, INPRS' actuaries performed an analysis using three potential scenarios. These include:

(1) No members utilize the provision;
(2) 10% of eligible members (23 members) utilize the provision; and
(3) 20% of eligible members (46 members) utilize the provision.

The bill provides that the cost to members utilizing the provision would total the amount of contributions withdrawn at the date of termination plus interest, which according to INPRS would be at a rate of 6.75%.

The results of the analysis, using the three scenarios, are shown in the following table.

	Change in Unfunded Actuarial Liability	**Change in Funded Ratio**	**Change in Annual State Contribution**
Scenario #1 - No members withdraw and later pay to reinstate past service	$0	0%	$0
Scenario #2 - 23 members withdraw and later pay to reinstate past service	$333,522	-0.3%	($14,422)
Scenario #3 - 46 members withdraw and later pay to reinstate past service	$667,044	-0.6%	($28,846)

For prefunded plans such as PARF, costs are defined as the increase in the unfunded actuarial liability of the fund. Therefore, costs will increase, depending upon the number of members who take advantage of the provision. Ultimately, the average cost to the state is estimated to be $14,500 per member who utilizes the provision.

The provisions within this bill will lower the funding ratio of PARF only minimally. The current funding ratio of PARF is 49%.

While the provision in the bill would increase the overall cost to PARF (if utilized), the provision would slightly decrease the annual contribution amount required by the state. This is due to the fact that members who reinstate past service generally have a lower future normal cost than do new members who are hired with no past service.

PARF is financed through a combination of employee contributions from prosecuting attorneys and chief deputy prosecuting attorneys, as well as state General Fund appropriations.

PARF Contribution Offset - The bill also establishes the amount of the PERF pension offset for a member (and the surviving spouse and dependent child of a member) in PARF who is also a member of the PERF DC Plan. This provision is effective upon passage.

The provision does not result in a cost at this time, as there are currently no PARF members who are also members in the PERF DC Plan. Currently, PARF members are also members of the standard PERF hybrid pension system. However, no individuals currently belong to PARF and the PERF DC Plan due to the fact that the PERF DC Plan is not yet operational. INPRS anticipates that the PERF DC Plan will be operational in

March 2013.

The PERF DC Plan is comprised solely of an annuity savings account plan, and enrollment in this plan is voluntary on the part of new state employees after March 2013. This is unlike the standard PERF hybrid pension/annuity savings account plan.

The changes in the bill make the pension offset the same for members of the PERF DC Plan as for members of PERF. In the future, as members meeting this definition occur, at retirement these individuals will retire (assuming full vesting in both plans) from both the PERF DC Plan and PARF. At that time, INPRS will calculate what the pension benefits would have been for the PERF DC Plan member, had they opted to become a member of PERF instead of the PERF DC Plan and had retired from PERF on the date of the member's retirement from PARF. The member's PARF pension benefits will then be reduced by this amount. The member will then receive the reduced PARF pension in addition to the PERF pension. The bill's requirements are within the INPRS routine administrative functions.

Exemption from Participation in PERF DC Plan and Retirement Medical Benefits Account - This provision exempts most quasi-state agencies as well as state educational institutions from participation in the PERF DC Plan and Medical Benefits Account. This provision is effective upon passage of the bill. This provision has no fiscal impact, as employer contributions for the PERF standard hybrid plan and the PERF DC Plan are the same. As well, employers who choose not to participate in the Medical Benefits Account program will not incur any additional expense or cost savings due to nonparticipation, as any unused vacation time up to 30 days will be converted to payment directly to the employee as opposed to converting the time to a monetary contribution into the Account.

Background:

PERF DC Plan - An individual who on or after the effective date of the PERF DC Plan becomes a full-time employee of the state for the first time and would otherwise be eligible for membership in PERF, may instead elect to become a member of the PERF DC Plan. The state's employer contribution rate for the PERF DC Plan is to be equal to the state's employer contribution rate for PERF (9.7% as of July 1, 2012). In addition, the state also pays the employer contribution of 3% on behalf of the employee.

PARF Pension Benefit Offset - PARF members who are also members of PERF have their pension benefit reduced by the amount of the employer-financed pension benefit that would be payable to the member had the member retired from PERF on the date of the member's retirement from PARF. However, the benefits payable to a member from PARF are not reduced by any payments made to the member from the member's PERF annuity savings account. If benefits payable from PERF exceed the benefits payable from PARF, the member may, at retirement, withdraw from PARF the total sum contributed by the member plus interest at a rate specified by the INPRS board. These individuals will receive a separate PERF pension in addition to the offset PARF pension.

Medical Benefits Account - The Medical Benefits Account, established under Section 401(h) of the Internal Revenue Code, is for employees of the state who are PERF members for the purpose of converting unused excess accrued leave to a monetary contribution to the account on a pretax basis for reimbursement of expenses associated with sickness, accident, hospitalization, and medical expenses for the employee, spouse, and dependents of the employee after retirement. Employees are limited to contributing 30 days of unused vacation to the medical benefits account.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Public Retirement System.

Local Agencies Affected:

Information Sources: *Indiana Pension Handbook;* Allison Karns, INPRS, akarns@inprs.in.gov. Donna Brown, INPRS, dobrown1@inprs.in.gov.

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Definitions: Prefunded Plan - Prefunded plans are funded through contributions (from employees, employers, and/or other sources) that are actuarially calculated to equal the benefit accrual cost for the year (normal cost) plus a 30-year amortization of the unfunded actuarial liability.

Annuity Savings Account - An Annuity Savings Account (ASA) is a defined contribution retirement plan that consists of mandatory and voluntary contributions. Employees are required to pay 3% of their pay towards the ASA, although this contribution is covered by the state in the case of state employees. Investment gains and losses are credited to a member's account, and there are no vesting requirements (although you may not receive a distribution from the ASA while employed in a PERF-covered position).

Normal Cost - The normal cost is the current value of benefits likely to be paid on account of a member's service being rendered in the current year.

Unfunded Actuarial Liability - The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Funding Ratio - The funding ratio is the ratio of a pension or annuity's assets to its liabilities.